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## **Government policy and small and medium-sized enterprises: Introduction to the virtual special issue**

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Small and medium-sized enterprises (SMEs) are politically popular (just try finding a politician who will say anything against these businesses) but, while parties of different colours have involved themselves in attempts to support SME start-up and growth and to encourage entrepreneurship, the success of such interventions has often disappointed. The gains that may be achieved through government policies and the reasons these gains have not always materialised have been keenly debated. The *International Small Business Journal* (ISBJ) has played an important role in publishing theory and empirical research that contributes to these debates since the journal's inception (Adams, 1982) and this Virtual Special Issue of ISBJ highlights six key papers demonstrating the breadth and insight of this work. This introduction will outline these papers together with some of the broader debates that have played out within the journal, demonstrating why this area is important and contested and why these articles merit (re)reading by academics, students and policy-makers.

In contemporary international debates, SMEs are presented as the likely saviours of economies struggling to build sustainable growth. Rainnie's (1985) observation in the mid-1980s, that small firms were cast as simultaneously the 'small furry animals' of the economy, needing support and assistance, *and* the 'shock troops' that will return the economy to prosperity carries resonance today with these firms being targets for government interventions and researchers' attention.

For example, in both government policy and academic work there is an ongoing focus on SMEs as an engine for growth, for example in terms of employment growth and job creation or GDP growth and economic recovery. This has included some interesting and valuable work, for example a recent Special Issue of this journal edited by Wright et al., (2015). The editors suggest that 'Much remains unexplained, undermining our ability to assist firms in prioritising strategic and managerial development, introducing uncertainties into the design of effective policy support for growing firms and weakening management education' (Wright et al., 2015: 4). Research published in ISBJ has had, and continues to have, an important part to play in addressing this lack of understanding.

Viewing SMEs solely through a lens of growth, however, risks distorting understandings of SMEs more generally (Mallett and Wapshott, 2015). Although business growth is an objective for many businesses, it is far from a uniform target of all

or even most businesses (Scase and Goffee, 1982; Sloan and Chittenden, 2006). Growth can be considered in a multitude of different ways, suggesting, as a result, that the concept is difficult to pin down (Gibb, 2000). Anyadike-Danes, Hart and Du (2015: 22), researching in the United Kingdom, found that the majority of jobs are created by small firms, especially micro-firms. However, these businesses also experience high rates of churn and the majority of job creation rests with a relatively small number of businesses. They also highlight the importance of studying growth trajectories and the nature of the jobs created, for example, whether the jobs are sustainable, secure and of high-quality.

The distorting effects of a focus on growth can be seen where assumptions that follow from this focus create particular policy objectives. For example, commonly stated concerns such as difficulties in accessing finance need to be approached in terms of a proportionate understanding of the importance of growth for firms. We have included an article by Mason (2009) in this Virtual Special Issue that analyses what is generally perceived as a market failure around funding for SMEs and how governments have attempted to intervene to address this, for example in terms of loan guarantee schemes, capital participation schemes and supporting the informal venture capital market, all of which have significant limitations. For the latter, Mason identifies and discusses six main forms of intervention: fiscal incentives for investors; business angel networks; changes to securities legislation; capacity building initiatives; and co-investment

schemes that leverage public money with money from angel investors. But he also identifies a need to effectively measure the impact of different interventions to support an informal venture capital market. For Mason (2009: 550) 'Supporting the informal venture capital market has therefore been largely an act of faith by governments.'

In developing rigorous and open debate around the needs of SMEs, an international perspective is important. This has been a particular strength of the journal, for example in examining differences between countries in the European Community (de Koning and Snijders, 1992), evaluating the lack of additional benefits of policy interventions in Sweden (Norrman and Bager-Sjögren, 2010) and, further afield, Thiam-Soon's (1984) detailed analysis of small business policy in Singapore following the country's industrialisation programme. Marchesnay (1984) explored the situation in France, highlighting a now-familiar story of owner-managers and entrepreneurs struggling to understand the huge array of potential support available and failing to make effective use of this support. Marchesnay (p.5) summarises the owner-manager perspective in terms of support being 'hard to obtain, arriving too late, they reinforce the feeling of redundancy of government services, whose civil servants often consider them as welfare recipients.' These international studies and evaluations are important, although one potential limitation in this work is that it has rarely produced new perspectives or insights from alternative cultural approaches, in part reflecting and contributing to the international political hegemony when it comes to SME policy.

We have included in this Virtual Special Issue a study by Smallbone and Welter (2001) on the role of SMEs amid the restructuring of Central and Eastern European countries transforming from centrally planned into market economies. In this context, where markets and related institutions are weakly developed, there is a potentially stronger case for direct support and the authors surveyed owner-managers through a large number of interviews (Survey 1, n= 619; Survey 2, n=377), exploring issues such as priorities for improving the external environment to support business development. In Ukraine, Moldova and Belarus (Survey 1), owner-managers emphasised improving macro level conditions such as tax and regulation, in contrast to more micro level support such as advice and training. The authors conclude that, in these transition economies, the main focus was on creating a secure and stable operating environment. Drawing on responses from Survey 2, in contrast, gathered in Poland, Hungary, the Czech Republic and the Baltic States where legal frameworks were more fully developed, highlighted market-related issues such as delayed payments and demand-related challenges. This study not only emphasises the different roles of government in different economies, or in different stages of market reform, it also suggests that there is a role for government support in creating and maintaining external environments in which SMEs can operate effectively and with confidence, rather than through more direct forms of intervention targeted at SMEs.

The forms of government intervention and its effects have featured as an interesting theme of discussion in the *International Small Business Journal*. Gibb (2000), for example, is an important paper that we include here because it highlights the potential implications of government policy that seeks to influence a particular type of external environment. In Gibb's analysis, the political discourse surrounding SMEs and entrepreneurship promotes particular ways to be an entrepreneur in the pursuit of growth and particular sources from whom to seek support and assistance (such as accountants, bankers) who reinforce these assumptions and instil forms of dependency. This is despite research evidence raising doubts about the wisdom of policy decisions made in the name of an 'enterprise culture'.

Gibb (2000) describes how policy has tended to focus on support for SME development, creating support structures which tend to involve subsidised programmes of training, finance and counselling; reinforcing an image of SMEs being in need of assistance from an industry of advisers, consultants and accountants as opposed to less formal, less commercially-oriented forms of support within a firm's operating environment. As a result, smaller businesses become customers and government intervention is focused upon the market that is subsequently created. Later work by Ram et al. (2013) suggests that such a subsidised industry creates vested interests where many intermediaries are constantly having to ensure they win government funding to secure their own futures. Vitally, Gibb persuasively argues that much of the activity

undertaken in this domain is based on assumptions or myths that reflect and reinforce particular world views in relation to SMEs and the appropriate ways to support them. Without regard for the robust research evidence that may contest these myths, such perspectives and practices continue to create ignorance about the issues facing these businesses.

In a paper contemporaneous with Gibb and also included in this Virtual Special Issue, Curran (2000) assesses SME policy in the UK since 1979, identifying two key aims: job creation and the promotion of an enterprise culture (see also analysis of a similar period in relation to young people by Greene, 2002). Curran suggests that, despite significant growth in publicly-funded small business support, the evaluation of policies in this area has tended to lag behind their proliferation, suggesting, perhaps, that the benefits of such initiatives are taken as an act of faith rather than rigorous judgement. Curran identifies three important methodological concerns when evaluating government policy and support: *additionality* (reliably attributing outcomes to the specific programme, see also, Norrman and Bager-Sjögren, 2010), which needs to be offset against the *deadweight* (outcomes which would have resulted anyway) and *displacement* (firms not involved in the programme are negatively impacted). The difficulty of overcoming these measurement problems presents a significant challenge and potential limitation to evaluations of SME policy and support (see also Devins, 1999).



Other problems include the low response rate for questionnaires and response bias. For example, smaller firms and those in particular industries are less likely to respond to evaluation surveys. As a result, it is very difficult to obtain views representative of the broad, heterogeneous grouping labelled 'SME' and it may be that larger, better-resourced businesses tend to be heard and their views and experiences can be over-generalised to represent all SMEs, further adding to the types of distortion that undermines SME policy-making. There are compounding problems where deadweight and displacement effects are measured through 'what if?' questions that estimate what might have happened without the relevant government programme being in place.

Yet, the impact of such measurement problems may trouble governments less than we might hope, so long as policy-making foregoes available evidence in the setting of policy agendas; raising questions over how such policy is to be debated and developed. Curran (2000: 42) argues that perennial areas of policy focus for both Conservative and Labour governments in the UK, such as shortages of start-up finance or the negative effects of employment legislation, have been 'overwhelmingly rejected by research' yet remain cornerstones of SME policy. Further, Curran's evaluation of government assistance and advice services identifies a low level of take up, raising the question of why, with so much investment and so many different initiatives, owner-managers appear so disinterested.

These problems may suggest a need for more direct consultation. As part of this Virtual Special Issue, we have included an article by MacMillan, Curran and Downing (1990) that highlights how, while the ideological commitment of successive governments to SMEs appears clear, the owner-managers of these businesses remain unconvinced. The authors identify certain characteristics common to many of these owner-managers, principally a commitment to independence and, concomitantly, that 'the state, whatever the party in power, will favour the interests of other, larger and more powerful groups and especially large firms, and [a belief in] the right of individuals to enjoy their property without interference' (p.16).

MacMillan, Curran and Downing interviewed 50 owner-managers of small firms as well as intermediaries between government and SMEs (such as from the Confederation of British Industry's Small Firms Council) and officials at different levels of government. These interviews supported previous findings in identifying that the owner-managers saw their interactions with government in a negative light, for example, as one owner-manager put it 'My main communication with government is sending them money really' (p.20). However, contrary to previous studies, these interviews identified high levels of awareness of potential government support, although this did not counteract relatively low levels of take-up. Reasons for this lack of interest in the support on offer related to bureaucratic aspects, for example the form-filling required and the time taken for decisions to be reached. This is echoed in Curran's (2000) review where he

identifies the independent mindset of SME owner-managers, bureaucracy and the top-down content, suggesting an inability of government to listen to the needs of owner-managers.

In MacMillan, Curran and Downing's (1990) analysis, membership of small business associations was low (2%), suggesting the limitations in government taking the views of such associations as representative of SMEs more generally. Although trade association membership was much higher (66%), these organisations were seen as dominated by large businesses. Views were expressed identifying a need for government to engage more directly with SMEs if these voices are to be heard and MacMillan, Curran and Downing identified that these owner-managers did want to talk. The problems articulated by the owner-managers were, for example, in relation to government questionnaires where respondents cited jargon, lack of clarity and finding the time to complete the survey. The authors conclude that effective consultation strategies should be: visible, proactive, personal, relevant and provide feedback.

Through engaging in research that seeks to illicit the voices of SME owner-managers and employees, to evaluate policy or to suggest new alternatives, academics clearly have an important role to play, however doubtful it may appear that this research is always utilised as effectively as it could be. The final paper we include in this Virtual Special Issue provides a potential way forward for researchers seeking to achieve

impact and engagement through their work. Ram et al. (2013) focus on the 'research-policy nexus' in relation to new migrant business owners, developing this nexus in terms of a proposed form of engaged scholarship. Ram and his colleagues describe this in terms of going beyond simply gathering empirical materials, designing additional activities such as developmental workshops into their research project and enhancing the scope and utility of the research process.

This approach was deployed to study a regional business support intermediary and its work with what Ram et al. define as super-diverse businesses, that is migrant business people who are increasingly diverse in terms of nationality, occupation and gender. They found that this diversity was not manifested in the businesses, which tended to reproduce the features of their migrant predecessors, and 'the heterogeneity of the protagonists themselves [was] flattened by the demands of the market and other external barriers that they must face' (p.344).

Ram et al. found that general problems for SMEs were heightened for some migrant businesses, for example in relation to new migrant intermediary organisations that wanted closer engagement with business support yet feeling a dislocation from the formal systems in place. As a result, the researchers became involved in trying to help overcome these problems, for example producing a detailed analysis of new migrant business activity in the region, facilitating business support for these enterprises,

identifying new intermediary networks and new collaborations. The researchers were eventually co-opted onto a relevant committee board. This approach allowed them to identify ‘the necessity to view policymaking as more than the unproblematic translation of “evidence”; rather it is a process of argumentation that emerges from dialogue, interpretation, experience and prevailing power structures’ (p.352). Through their practice therefore, Ram et al. suggest one possible way forward for policy-engaged academic research on SMEs and entrepreneurship.

## **Conclusion**

During their long relative exclusion from political debate and academic research prior to the 1970s, SMEs were largely left to their own devices without the formal attentions of ministers and government programmes intended to help. However, the later exploitation of SMEs in political discourse has allowed politicians to legitimise their activities and ambitions, for example through the ways in which ‘[r]isk was rhetorically dissipated from the centralised state to the individual through the device of small firm policy’ (Dannreuther and Perren, 2013: 167). There is some evidence, highlighted and discussed in the papers included in this Virtual Special Issue, that both the research evidence and the voices of a heterogeneous SME community have been largely ignored in the pursuance of this agenda. Worryingly, it may still be the case that ‘... despite the increase in academic knowledge [from SME, self-employment and entrepreneurship

research], indeed perhaps because of it, there has been a growth of ignorance' (Gibb, 2000: 13). Instead of a tactical deployment of SMEs to achieve political ends, we hope to see a reduction in rhetoric driven by political beliefs and ideology and, instead, greater attention paid to the detail and nuance of empirical research in this area. Of course, this also needs researchers to move beyond politically hot topics such as business growth. Granted, such a shift might complicate the political message but it would at least engage with the everyday practices and experiences of SMEs, encouraging policy-makers to listen to a range of different voices and to engage with evidence and debate.

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